Since 1956

Pegasus International Holdings Limited

創 信 國 際 控 股 有 限 公 司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

(Stock Code 股份代號：676)

INTERIM REPORT 2011 中期報告

The Board of Directors (the "Directors") of Pegasus International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2011 with comparative figures for the corresponding period in 2010.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2011

	NOTES	**Six months ended 30th June, 2011 (unaudited) US$'000**	2010 (unaudited) US$'000
Revenue		**63,896**	41,505
Cost of sales		**(52,985)**	(34,161)
Gross profit		**10,911**	7,344
Other income		**195**	111
Selling and distribution costs		**(4,040)**	(3,642)
Administrative expenses		**(5,331)**	(3,732)
Share of (loss) profit of an associate		**(53)**	4
Share of (loss) profit of a jointly controlled entity		**(418)**	74
Interest on bank borrowings wholly repayable within five years		**(64)**	(79)
Profit before taxation		**1,200**	80
Taxation	5	**(2,459)**	(41)
(Loss) profit for the period		**(1,259)**	39
Other comprehensive (expense) income for the period			
Exchange differences arising on translation of foreign operations		**(541)**	158
Total comprehensive (expense) income for the period		**(1,800)**	197
(Loss) earnings per share	7		
Basic		**(0.172) US cent**	0.005 US cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2011

	NOTES	At 30th June, 2011 (unaudited) US$'000	At 31st December, 2010 (audited) US$'000
Non-current assets			
Property, plant and equipment	8	**62,023**	63,009
Prepaid lease payments		**5,947**	6,034
Interests in an associate		**645**	698
Interests in a jointly controlled entity		**1,384**	1,830
		69,999	71,571
Current assets			
Prepaid lease payments		**169**	169
Inventories		**37,277**	47,020
Trade and other receivables	9	**10,243**	9,952
Held for trading investments		**591**	431
Derivative financial instruments		**–**	53
Bank balances and cash		**21,571**	13,701
		69,851	71,326
Current liabilities			
Trade and other payables	10	**10,674**	8,760
Tax payable		**61**	1,150
Unsecured bank borrowings – due within one year		**5,160**	5,511
		15,895	15,421
Net current assets		**53,956**	55,905
		123,955	127,476
Capital and reserves			
Share capital	11	**9,428**	9,428
Share premium and reserves		**110,459**	112,730
Total equity		**119,887**	122,158
Non-current liabilities			
Unsecured bank borrowings – due after one year		**625**	1,875
Deferred tax liabilities		**3,443**	3,443
		4,068	5,318
		123,955	127,476

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2011

	Share capital US$'000	Share premium US$'000	Properties revaluation reserve US$'000	Merger reserve US$'000	Translation reserve US$'000	Retained profits US$'000	Total US$'000
At 1st January, 2010	9,428	21,644	3,576	(4,512)	14,189	74,077	118,402
Profit for the period	–	–	–	–	–	39	39
Exchange differences arising on translation of foreign operations	–	–	–	–	158	–	158
Total comprehensive income for the period	–	–	–	–	158	39	197
Final dividends paid for 2009	–	–	–	–	–	(943)	(943)
As 30th June, 2010	9,428	21,644	3,576	(4,512)	14,347	73,173	117,656
At 1st January, 2011	**9,428**	**21,644**	**8,193**	**(4,512)**	**16,770**	**70,635**	**122,158**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(1,259)**	**(1,259)**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**(541)**	**–**	**(541)**
Total comprehensive expense for the period	**–**	**–**	**–**	**–**	**(541)**	**(1,259)**	**(1,800)**
Final dividends paid for 2010	**–**	**–**	**–**	**–**	**–**	**(471)**	**(471)**
As 30th June, 2011	**9,428**	**21,644**	**8,193**	**(4,512)**	**16,229**	**68,905**	**119,887**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th June, 2011

	Six months ended 30th June	
	2011	2010
	(unaudited)	(unaudited)
	US$'000	US$'000
OPERATING ACTIVITIES		
Cash generated from operations	**14,023**	8,442
Taxation in other jurisdictions paid	**(3,532)**	(8)
NET CASH FROM OPERATING ACTIVITIES	**10,491**	8,434
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(558)**	(239)
Interest received	**72**	51
NET CASH USED IN INVESTING ACTIVITIES	**(486)**	(188)
FINANCING ACTIVITIES		
Repayment of bank loans	**(1,601)**	(2,858)
Bank loans raised	**–**	3,000
Dividends paid	**(470)**	(943)
Interest paid	**(64)**	(79)
NET CASH USED IN FINANCING ACTIVITIES	**(2,135)**	(880)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**7,870**	7,366
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	**13,701**	22,883
CASH AND CASH EQUIVALENTS AT 30TH JUNE, REPRESENTED BY BANK BALANCES AND CASH	**21,571**	30,249

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34, Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements for the six month ended 30th June, 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2010.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st January, 2011.

The application of the these new and revised HKFRSs had no material effect on the amounts reported in the condensed consolidated financial statements and disclosures set out in the condensed consolidated financial statements.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the chief operating decision maker of the Group, being the Group's chief executive officer, regularly reviews the revenue and operating results analysis by geographical market based on destination of the goods shipped or delivered, irrespective of the origin of the goods. The Group's operating segments determined based on location of geographical markets are North America, Europe, Asia and other regions. However, the chief decision maker does not regularly review the segment assets and segment liabilities by operating segments.

Six months ended 30th June, 2011

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
REVENUE					
External sales of goods	39,500	14,184	8,441	1,771	63,896
RESULTS					
Segment results	6,172	1,320	976	249	8,717
Unallocated income					123
Interest income					72
Unallocated expenses					(7,177)
Share of loss of an associate					(53)
Share of loss of a jointly controlled entity					(418)
Interest on bank borrowings wholly repayable within five years					(64)
Profit before taxation					1,200
Taxation					(2,459)
Loss for the period					(1,259)

3. SEGMENT INFORMATION *(Continued)*

Six months ended 30th June, 2010

	North America US$'000	Asia US$'000	Europe US$'000	Others US$'000	Consolidated US$'000
REVENUE					
External sales of goods	19,063	13,868	6,703	1,871	41,505
RESULTS					
Segment results	2,247	1,575	811	270	4,903
Unallocated income					60
Interest income					51
Unallocated expenses					(4,933)
Share of profit of an associate					4
Share of profit of a jointly controlled entity					74
Interest on bank borrowings wholly repayable within five years					(79)
Profit before taxation					80
Taxation					(41)
Profit for the period					39

4. PROFIT BEFORE TAXATION

	Six months ended 30th June, 2011 US$'000	2010 US$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments	**199**	226
Other staff costs	**16,123**	12,039
Retirement benefits scheme contributions (excluding contributions in respect of directors)	**927**	678
Total staff costs	**17,249**	12,943
Auditors' remuneration	**68**	72
Depreciation of property, plant and equipment	**1,544**	1,674
and after crediting to other income:		
Interest income	**72**	51

5. TAXATION

	Six months ended 30th June, 2011 US$'000	2010 US$'000
Current taxation:		
PRC	**2,458**	40
Taiwan	**1**	1
Taxation attributable to the Group	**2,459**	41

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the current and prior periods. No Hong Kong Profit Tax is made in the consolidated financial statement as these is no assessable profit for both periods.

The relevant tax rates for the Group's subsidiaries in the People's Republic of China ("PRC") are 25% for the current and prior periods.

During the period, the Group reached a settlement agreement with a PRC tax authority regarding the Group's transfer pricing arrangements for previous years and accordingly paid additional Enterprise Income Tax ("EIT") of approximately US$2,458,000 which was charged to the statement of comprehensive income for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. DIVIDENDS

On 10th June, 2011, a dividend of 0.5 HK cent per share was paid to shareholders as the final dividend for 2010 (2010: 1 HK cent per share in respect of the year ended 31st December, 2009).

The directors have determined that an interim dividend of 0.5 HK cent per share (2010: nil) should be paid to the shareholders of the Company whose name appear on the Register of Member on 23rd September, 2011.

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss attributable to owners of the Company of US$1,259,000 (six months ended 30th June, 2010: profit of US$39,000) and on 730,700,000 (2010: 730,700,000) ordinary shares in issue during the year.

There are no potential ordinary shares outstanding for each of the two periods ended 30th June 2011.

8. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

The Group spent approximately US$558,000 (six months ended 30th June, 2010: US$239,000) on additions to property, plant and equipment.

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting date:

	30th June, 2011 US$'000	31st December, 2010 US$'000
0-30 days	**5,855**	6,011
31-60 days	**589**	626
Over 60 days	**280**	150
Total trade receivables	**6,724**	6,787
Other receivables	**3,519**	3,165
	10,243	9,952

10. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables presented based on invoice date at the end of the reporting date:

	30th June, 2011 US$'000	31st December, 2010 US$'000
0-30 days	**3,390**	2,520
31-60 days	**148**	202
Over 60 days	**271**	201
Total trade payables	**3,809**	2,923
Other payables	**6,865**	5,837
	10,674	8,760

11. SHARE CAPITAL

	Number of shares	Amount US$'000
Authorised		
Ordinary shares of HK$0.10 each		
At 1st January, 2010, 31st December, 2010 and 30th June, 2011	1,500,000,000	19,355
Convertible non-voting preference shares of US$100,000 each		
At 1st January, 2010, 31st December, 2010 and 30th June, 2011	150	15,000
		34,355
Issued and fully paid		
Ordinary shares of HK$0.10 each		
At 1st January, 2010, 31st December, 2010 and 30th June, 2011	730,700,000	9,428

12. COMMITMENTS

At the end of the reporting period, the Group had entered into agreements with licensors to obtain licenses to use certain materials and trademarks in a number of merchandising activities for one to two years. Pursuant to the agreements, the Group has agreed to pay royalties to the licensors which are based on certain fixed percentages of the selling prices for items sold.

At 30th June, 2011, the minimum royalties payable to the licensors for the remaining contract periods amounted to US$219,000 (31st December, 2010: US$479,000).

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of 0.5 HK cent per ordinary share for the six months ended 30th June, 2011 to shareholders whose names appear on the register of members on 23rd September, 2011. The dividend warrants will be sent to shareholders on or before 30th September, 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 20th September, 2011 to Friday, 23rd September, 2011, both days inclusive, during which no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 19th September, 2011.

FINANCIAL REVIEW

During the six months ended 30th June, 2011, the Group continued to concentrate on the manufacture and sales of footwear products. For the six months ended 30th June, 2011, the Group achieved a turnover of US$63,896,000 (2010: US$41,505,000) compared with the six months ended 30th June, 2010, the turnover increased by 54%.

Profit before taxation of the Group for the six months ended 30th June, 2011 was US$1,200,000 (2010: US$80,000), an increase of US$1,120,000 as compared to the corresponding period in 2010. However, after accounting for income taxes of US$2,459,000, resulted a loss after taxation of US$1,259,000 (2010: profit after taxation: US$39,000).

Basic loss per share for the six months ended 30th June, 2011 was 0.172 US cent (basic earnings per share for 2010: 0.005 US cent). The Group maintained the gross profit margin at approximately 17% for both periods.

BUSINESS REVIEW AND FUTURE PROSPECTS

Manufacturing Industry

In current period, performance of the Group has improved compared to same period in 2010. Benefit from the slow but solid recovery in oversea markets in first half of 2011, export demands from our major customers picked up quickly, reflected as a double-digit growth in turnover for the first six months of 2011. Moreover, we devoted efforts in advancing production technology and inspiring new designs, and target in providing high quality and trust worthy footwear products, increase in orders from existing customers also contributed the impressive growth in sales in the period.

Meanwhile, uncertain factors that may threaten the future economy are still ahead: high standing unemployment rate in the US, sovereign debt crisis in European countries and controls to the over heated economic by the PRC government are yet to be resolved. Facing all these challenges, the Group will continue to maintain financially prudent, consolidate talents from the management and staff to improve operation efficiency, and finally add value to customers and business partners.

Domestic Market

China market again plays an important role in the Group's development strategy. Despite the growth in domestic sales slowed down in first six month in 2011, the Group is optimistic towards the development in China. The Group will work closely with the local sales office and the marketing leaders to substantiate a series of new promotion activities, it is a golden opportunity for further development in local market, especially in South China region.

Our collections of famous worldwide brands such as Nike, Adidas, Magic House, OshKosh B' Gosh and Slazenger continue to form a strong sales base in the market, the comprehensive sales channels and strategies provide a good stepping stone for the Group development in China.

Future Prospects

The Group will grasp firmly every chance in this recovering economy. Operational reforms aim at bringing out the greatest synergy from existing resources, financial plans also take an important role in formulating a better assets management strategy. Also, our commitment to local society and concern to workers are reinforced. We believe that the global market will continue to gain its vitality in 2011 and 2012, the Group will continue our success and share the achievement with the stakeholders and the community.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2011, the Group's total net assets was US$119,887,000, comprising mainly current assets of US$69,851,000, non-current assets of US$69,999,000, current liabilities of US$15,895,000 and non-current liabilities of US$4,068,000. The current ratio was approximately 4.39 times and net bank balances and cash of US$15,786,000 was recorded as at 30th June, 2011. The Group services its debts primarily through cashflow generated from its operation. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2011, the interests of the directors and their associates in the share, underlying share or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinances (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies, were as follows:

Long positions

(a) Ordinary shares of HK$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Wu Jenn Chang, Michael	Beneficial owner	8,000,000	1.09%
Wu Jenn Tzong, Jackson	Beneficial owner	1,000,000	0.14%
		9,000,000	1.23%

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Long positions *(Continued)*

(b) Ordinary shares of the associated corporations of the Company

Pegasus Footgear Management Limited (note 1)

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the associated corporation
Wu Chen San, Thomas	Beneficial owner (note 2)	3,235	16%
Wu Jenn Chang, Michael	Corporate (note 3)	6,470	32%
Wu Jenn Tzong, Jackson	Corporate (note 4)	6,470	32%
		16,175	80%

Notes:

1. Pegasus Footgear Management Limited is the holding company of the Company.
2. The shares are jointly held by Mr. Wu Chen San, Thomas and Mrs. Peggy Wu, the spouse of Mr. Wu Chen San, Thomas.
3. The shares are entirely held by M.W. Investment Limited, a company owned by Mr. Wu Jenn Chang, Michael.
4. The shares are entirely held by J.W. Investment Limited, a company owned by Mr. Wu Jenn Tzong, Jackson.

Save as disclosed above, at 30th June, 2011, none of the directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company, its holding company, or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed in "Directors' Interests in Shares", the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.

Long position

Ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company %
Pegasus Footgear Management Limited (note)	Beneficial owner	468,743,940	64

Note: Details of the directors' interests in Pegasus Footgear Management Limited are disclosed under the section headed "Directors' Interests in Shares".

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 30th June, 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months ended 30th June, 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30th June, 2011 with the code provisions set out in the Code on Governance Report contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exact than the required standard set out in Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements.

By Order of the Board
Wu Chen San, Thomas
Chairman

Hong Kong, 29th August, 2011